

TOWN OF POUGHKEEPSIE, NEW YORK

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEAR ENDED
DECEMBER 31, 2007**

**TOWN OF POUGHKEEPSIE, NEW YORK
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DECEMBER 31, 2007**

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INDEPENDENT AUDITORS' REPORT

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To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of December 31, 2007, and for the year then ended which collectively comprise the Town's basis financial statements as listed in the forgoing Table of Contents. These basic financial statements are the responsibility of the Town of Poughkeepsie, New York, management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in the *Government Auditing Standards*. Those standards issued by the Comptroller General of the United States, require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York as of December 31, 2007 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and Exhibit I, budgetary comparison information, listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion thereon.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. Exhibit II, the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Town of Poughkeepsie, New York. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the Town of Poughkeepsie, New York's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations contracts and grants. The report on compliance with laws and regulations and internal control over financial reporting is an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of our audit, this report should be read in conjunction with the auditor's report on the basic financial statements.

Sedore & Company, CPA'S
Poughkeepsie, New York
December 29, 2008



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**REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Poughkeepsie, New York, as of and for the year ended December 31, 2007, which collectively comprise the Town of Poughkeepsie, New York's basic financial statements and have issued our report thereon dated December 29, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Poughkeepsie's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not to provide an opinion on the effectiveness of the Town of Poughkeepsie's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Poughkeepsie's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination

of control deficiencies, that adversely affects the Town of Poughkeepsie's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Poughkeepsie's financial statements that is more than consequential will not be prevented or detected by the Town's internal control. The significant deficiency is described as follows:

As noted in the Findings and Recommendations portion of the report, the Town's internal controls failed to detect that opening fund balance was materially misstated.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Poughkeepsie's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, we do not believe the significant deficiency described above is a material weakness.

We noted other findings involving the internal control over financial reporting that we have reported to management of the Town of Poughkeepsie, New York, as described in the accompanying Schedule of Findings and Recommendations as listed in the Table of Contents.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Poughkeepsie, New York's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that is required to be reported under *Government Auditing Standards*.

We also noted certain immaterial instances of noncompliance that we have reported to the management of the Town of Poughkeepsie, New York, in the Schedule of Findings, Questioned Costs and Recommendations listed in the Table of Contents.

This report is intended solely for the information and use of the Supervisor, Town Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sedore & Company, CPAs
Poughkeepsie, New York
December 29, 2008



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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Supervisor and
Members of the Town Board
Town of Poughkeepsie, New York
One Overocker Road
Poughkeepsie, New York 12603

Compliance

We have audited the compliance of the Town of Poughkeepsie, New York, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2007. The Town of Poughkeepsie, New York's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings, Questioned Costs and Recommendations. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Town of Poughkeepsie, New York's management. Our responsibility is to express an opinion on the Town of Poughkeepsie, New York's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Poughkeepsie, New York's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Poughkeepsie, New York's compliance with those requirements.

In our opinion, the Town of Poughkeepsie, New York, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2007.

Internal Control Over Compliance

The management of the Town of Poughkeepsie, New York, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Poughkeepsie, New York's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Poughkeepsie's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Poughkeepsie's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than consequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Town of Poughkeepsie's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Supervisor, Town Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sedore & Company, CPAs

Poughkeepsie, New York
December 29, 2008

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007**

As the management of the Town of Poughkeepsie, Dutchess County, New York, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended December 31, 2007. This discussion and analysis should be read in conjunction with the financial statements and the accompanying notes to the statements that begin on page 15.

The Basic Financial Statements consist of a series of inter-related financial statements. The statements of Net Assets and Statement of Activities (on pages 15, 16 and 17) provide information about the activities of the Town as a whole, presenting both short-term and longer-term views of the Town's finances. For governmental activities, the Town's traditional fund financial statements (beginning on page 18) tell the reader how Town provided services and programs were financed in 2007, as well as what resources is available for future spending. Fund financial statements report on the Town's operations in greater detail than the government-wide statements, and concentrate on the Town's most significant funds (identified as "major" funds), with less significant or "non-major" funds accumulated for presentation in one column. Fiduciary fund statements provide information about financial activities for which the Town acts solely as trustee or agent for the benefit of organizations or persons outside of the Town government.

**Reporting on the Town as an Entity:
The Statement of Net Assets and the Statement of Activities**

The Statement of Net Assets and Liabilities of the Town as a whole, with the difference between Assets and Liabilities reported as Net Assets. The Statement of Activities presents financial information as to how the Town's Net Assets changed during the fiscal year, with all changes being reported as soon as the underlying event occurs, regardless of the timing of the related cash flows. Over time, increases or decreases in the Town's Net Assets position are one indicator of whether its "financial health" is strengthening or deteriorating. Theses statements are inclusive of all Town's basic services including police, public works/highway, parks and recreation. Both statements utilize the accrual basis of accounting, the same accounting method used by most private-sector organizations.

**Reporting the Town's Most Significant Funds:
Fund Financial Statements**

The Fund Financial Statements provide detailed financial information about the most significant funds of the Town, not the Town as a whole. Some funds (most notably the General and Highway funds) are established as required by State law, while other funds are established at the Town's discretion to help it account for and manage money for specific purposes. All of the Town's funds are classified as the Governmental Funds which focus on near-term inflows and outflows of spend able resources, and on balances of spend-able resources still available at the end of the fiscal year. This measurement focus is known as the modified accrual basis of accounting.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

Financial information is presented separately in the Governmental Fund Balance Sheet and in the Statement of Revenues, Expenditures, and Changes in Fund Balances for the Town's General Fund and Highway Fund. Financial information for all other Governmental Funds is combined into a single-aggregated presentation. Individual fund data for each of the non-major funds is provided in the Combining Statements provided at the end of these Basic Financial Statements.

Compliance with the Original and Final Operating budget for the Town's major funds is reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances—Budget and Actual.

In that the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information provided in each. The reader may then better understand the long-term impacts of the Town's near-term financing decisions. The reconciliation of the Fund Balances to the Net Assets of Governmental Activities provided in the Governmental Funds Balance Sheet, and the Reconciliation of the Statement of Revenues, Expenditures, and Changes in Governmental Fund Balances to the Statement of Activities facilitate the comparison between Governmental Activities.

**Reporting the Town's Fiduciary Responsibilities:
The Town as Trustee**

Fiduciary Funds are not reported in the government-wide financial statements in that the resources of those funds are not available to support the Town's services and programs. The Town is responsible for ensuring that the assets reported in these funds are utilized for their intended purpose. The Town's fiduciary activities are reported in the Statement of Fiduciary Net Assets (on page 22), and are prepared using the full accrual basis of accounting.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements (beginning on page 23) provide additional information essential to a clear understanding of the financial information provided in the government-wide and fund financial statements.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

**The Town as a Whole
Governmental Activities**

For the fiscal year ended December 31, 2007 Net Assets changed as noted below, with the total \$3,008,415 increase representing a 12.3% increase in Net Assets.

| | |
|----------------------|---------------------|
| Beginning Net Assets | \$24,469,594 |
| Change in Net Assets | <u>3,008,415</u> |
| Ending Net Assets | <u>\$27,478,009</u> |

Statement of Net Assets

Comparative Schedule for Fiscal Years Ended December 31, 2007 and 2006

| | Year Ended <u>12/31/2007</u> | Year Ended <u>12/31/2006</u> |
|----------------------------|---------------------------------|---------------------------------|
| Revenues | | |
| <u>Program Revenues</u> | | |
| Charges for Service | \$5,938,738 | \$5,883,640 |
| Grants | 1,606,606 | 1,468,309 |
| General Revenue | | |
| Property Tax | 22,184,126 | 22,582,439 |
| Mortgage Tax | 2,185,724 | 2,162,952 |
| Sales Tax | 2,220,902 | 2,201,247 |
| Fees, Fines and Licenses | 1,617,730 | 1,311,142 |
| Other Revenue | <u>5,229,688</u> | <u>3,975,306</u> |
| | <u>\$40,983,514</u> | <u>\$39,585,035</u> |
| EXPENSES | | |
| General Government Support | \$4,760,312 | \$4,978,858 |
| Public Safety & Health | 14,221,672 | 14,151,652 |
| Health | 21,193 | 20,269 |
| Transportation | 5,713,013 | 5,643,029 |
| Economic Assistance | 79,660 | 77,771 |
| Culture & Recreation | 806,966 | 712,501 |
| Home & Community Service | 10,688,440 | 11,114,061 |
| Interest Long term Debt | <u>1,675,843</u> | <u>1,599,642</u> |
| Total Expenses | <u>\$37,975,099</u> | <u>\$38,297,783</u> |

Net Assets of \$27,478,009 as of year-end reflects a total increase of \$3,008,415.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

The Town's Governmental Funds

For the fiscal year ended December 31, 2007 the Town's Governmental Funds reported combined ending fund balances of \$461,274, a net decrease from fiscal year 2006 fund balances of \$3,319,818 or 88%. Of the net decrease, \$3,110,712 relates to the excess of expenses over revenues on the Capital Projects. Bonding was done in previous years and no new revenue is generated. Operations in the General and Highway Funds, the Town's two major operating funds, resulted in a *negligible* fund balance decrease.

The reserved portion of total fund balances not available for new spending includes: General and Highway Funds totaling \$815,000, which was appropriated for use in our 2008 budget, outstanding contract and purchase order commitments of \$340,136 and a Reserve for Debt Service of \$585,179. The combined unreserved undesignated portion of total fund balances reflects a deficit of \$1,287,767. The Town's General and Highway Funds (the Town's two major funds) includes \$3,172,603 in un-appropriated fund balances available for future use.

Comparative Schedule of Expenditures

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund expenditures for the fiscal year ended December 31, 2007 and 2006.

| <u>Expenditures:</u> | <u>Year Ended 12/31/2007</u> | <u>Year Ended 12/31/2006</u> |
|---------------------------------|----------------------------------|----------------------------------|
| General Governmental Support | \$5,210,249 | \$5,335,901 |
| Public Safety | 12,554,294 | 12,232,897 |
| Health | 29,193 | 20,269 |
| Transportation | 8,115,506 | 7,265,360 |
| Economic Assistance/Opportunity | 79,660 | 77,771 |
| Culture and Recreation | 1,067,612 | 658,311 |
| Home and Community Services | 11,085,239 | 11,821,977 |
| Employee Benefits | 1,251,493 | 1,369,930 |
| Debt Service | <u>5,182,726</u> | <u>5,196,023</u> |
| Total Expenditures | <u>\$44,575,972</u> | <u>\$43,978,439</u> |

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town expended \$44,575,972 for current year operations. By comparison, this was \$597,533 (on net basis) more than the \$43,978,439 expended in 2006.

Comparative Schedule of Revenues

The following schedule presents a summary of General, Special Revenue (including Highway), Capital Project, and Debt Service Fund revenues for the fiscal years ended December 31, 2007 and 2006.

| <u>Revenue Sources:</u> | <u>Year Ended 12/31/2007</u> | <u>Year Ended 12/31/2006</u> |
|--------------------------------------|----------------------------------|----------------------------------|
| Real Property Tax items | \$22,729,949 | \$23,181,460 |
| Non-Property Taxes | 2,778,146 | 2,724,019 |
| Dept. Income/Charges/fees/permits | 5,652,286 | 6,023,427 |
| Use of Money and Property | 1,623,697 | 1,586,630 |
| Fines and Forfeitures | 670,416 | 578,574 |
| Interfund Revenues | 27,344 | 25,627 |
| License & Permits | 947,314 | 732,568 |
| Sale of Property & Compensation Loss | 77,497 | 233,694 |
| State and Federal Aid/Payments | 5,362,305 | 3,935,314 |
| All Other Revenues | <u>1,017,200</u> | <u>599,010</u> |
| Total Revenues | <u>\$40,886,154</u> | <u>\$39,620,323</u> |

Again, as shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds, recast in the chart above, the Town recorded \$40,886,154 in revenues to support current year operations. By comparison, this was (on a net basis) \$1,265,831 more than the \$39,620,323 recorded in 2006, Non Property Tax Items increased by \$54,127, State and Federal Aid increased by \$1,426,991 and all other revenue increased by \$418,190 accounting for the majority of increased revenues.

General Fund. The General Fund, a major fund, is the primary operating fund of the Town, including the operations of the Police, Parks and Recreation, and Public Works Departments, General Administration, the Town Court, and that portion of the Highway Department not required to be accounted for in the Highway Fund. Results of operations in the General Fund resulted in a \$589,850 negative net change in fund balance. The present \$2,256,246 in unreserved, un-appropriated fund balance represents 9.91% of the \$22,764,449 in total fund expenditures and operating transfers out recorded in the fiscal year.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

Highway Fund. The Highway Fund, also classified as a major fund, includes the greater portion of the activities of the Town's Highway Department (with the balance of highway Department activities being accounted for in the General Fund). Highway Fund activities include road repair, machinery acquisition and maintenance, and snow and ice control. Results of operations in the Highway Fund resulted in a \$511,391 increase net change in fund balance. The \$916,357 unreserved, un-appropriated fund balance represents 19.1% of the \$4,794,517 in fund expenditures and operating transfers out recorded in the fiscal year.

The Town received \$495,061 in Federal and State Aid which contributed significantly to the increase in Fund Balance, final net result of operations was also better than initially planned.

"Non-Major" Special Revenue (Governmental) Funds. "Non-Major" Special Revenue Funds are used to account for taxes, user fees and other revenues that are raised or received to fund special governmental activities including the ambulance, fire protection, street lighting, and refuse collection to service areas that may or may not encompass the entire Town. Collectively accounting for approximately \$2,400,000 of all governmental activities, operations of all "Non-Major" Special Revenue funds resulted in a \$110,746 negative net change in fund balances.

Water Fund. The Town runs a joint venture with the City of Poughkeepsie. The main purpose is to provide our residents and business owners with a quality and affordable water supply. The Town operates two water districts, collecting capital improvements from each district. Sale of water was down \$108,022 resulting in a net decrease in Fund Balance. The unreserved, un-appropriated fund balance of \$3,009,454 represents 52.0% of the \$5,790,650 in fund expenditures and operating transfers out recorded in the fiscal year.

Sewer Fund. The Town operates 33 Sewer Districts. Taxes are collected for capital expenditure for each district. It also collects sewer rents for operation and maintenance of the facility/system. Plans for the expansion and upgrade to the Arlington Sewer Treatment Plant are still moving forward and actual work will begin in the year 2009. The Town is currently incurring engineering expenses in the design and expansion of the plant. The current fund balance reflects a deficit of \$401,094. An approved 2009 rate increase of 20% for most residents/businesses is expected to bring this fund back to a surplus position.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

Capital Assets and Debt Administration

Capital Assets. In accordance with Governmental Accounting Standards Board (GASB) Statement #34, the Town records depreciation expense and accumulated depreciation associated with all of its assets including infrastructure. The Town's investment in capital assets for its governmental activities totals \$40,538,946, net of accumulated depreciation.

Debt Administration. At year-end 2007, the Town had \$29,491,057 in Serial Bonds and \$13,830,000 in Bond Anticipation Notes (BAN's) outstanding.

The Town maintains a conservative debt borrowing policy and presently holds an AAA-2 rating from Moody's Investors Service.

At year-end 2007, the Town had \$2,532,548 in accumulated Compensated Absences due to its employees, a net increase of \$447,518 from the prior year. The Town does not specifically budget for the payment of compensated absences, but utilizes available budgetary appropriations when that portion of the liability that relates to an employee severing service with the Town is "cashed out".

Economic Factors, Subsequent Significant Events, and Future Budget Impacts

The Town's historically conservative budget philosophy, and continued strong fund balance position in its General and Highway funds (both being major funds) effectively serve to insulate the Town from adverse economic impacts. We will continue to carefully monitor our Town's non-property tax revenues, and adjust non-essential appropriations and property taxes accordingly. Town property taxes provide roughly sixty percent of the operating revenues needed to fund Town services and programs. When considered together with appropriated fund balances, the Town is virtually assured of more than 70% of its needed resources.

No major shortfalls in appropriations are presently anticipated that cannot be addressed either through the additional appropriation of fund balance, or through the transfer of existing, available budgeted appropriations. The Town also funds/budgets for a minor Contingency Fund and is also available to meet unanticipated needs.

**TOWN OF POUGHKEEPSIE, NEW YORK
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2007 (CONT'D.)
(UN-AUDITED)**

Contracting the Town's Financial Management

This financial report is designed to provide a general overview of the Town's finances for all those having an interest, and should be considered along with the Basic Financial Statements and related notes. Questions concerning any of the information provided in this report may be addressed to James M. Wojtowicz, CPA Town Comptroller, at One Overocker Road, Poughkeepsie, New York, 12603.

TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF NET ASSETS
DECEMBER 31, 2007

| | <u>GOVERNMENTAL ACTIVITIES</u> |
|---|---|
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | \$ 11,680,688 |
| Restricted cash and investments | 476,385 |
| Receivables (net) | 7,990,745 |
| Due from related party | 212,283 |
| Inventory | 13,125 |
| Total current assets | <u>20,373,226</u> |
| Non-current assets | |
| Bond issue costs | 123,260 |
| Capital assets: | |
| Land | 10,686,296 |
| Infrastructure, net of depreciation | 17,632,154 |
| Buildings, machinery and equipment, net of depreciation | 12,220,496 |
| Total capital assets | <u>40,538,946</u> |
| Investment in Joint Water Project | <u>19,808,731</u> |
| Total assets | <u>\$ 80,844,163</u> |
| LIABILITIES | |
| Current Liabilities | |
| Accounts payable | 2,251,507 |
| Accrued expenses and retainage payable | 3,295,346 |
| Bond anticipation note | 13,830,000 |
| Deferred revenues | 193,744 |
| Current portion of long-term liabilities | |
| Capital lease payable | 260,671 |
| Compensated absence liability | 253,254 |
| Landfill remediation liability | 19,471 |
| Bonds payable | 2,760,000 |
| Total current liabilities | <u>22,863,993</u> |
| Non-current liabilities | |
| Capital lease payable | 709,316 |
| Compensated absence liability | 2,279,294 |
| Landfill remediation liability | 782,494 |
| Bonds payable | 26,731,057 |
| Total non-current liabilities | <u>30,502,161</u> |
| Total liabilities | <u>53,366,154</u> |
| NET ASSETS | |
| Invested in Capital Assets, net of related debt | 23,287,902 |
| Invested in Joint Water Project, net of related debt | 6,598,731 |
| Restricted for: | |
| Debt service | 585,179 |
| Unrestricted | <u>(2,993,803)</u> |
| Total net assets | <u>27,478,009</u> |
| Total liabilities and net assets | <u>\$ 80,844,163</u> |

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

**TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007**

| FUNCTIONS/PROGRAMS | EXPENSES | CHARGES FOR SERVICES | OPERATING GRANTS AND CONTRIBUTIONS |
|--------------------------------------|-------------------|---------------------------------|---|
| Governmental Activities: | | | |
| General government support | \$ 4,760,312 | \$ 8,266 | \$ 6,448 |
| Public safety | 14,083,211 | 180,641 | 52,201 |
| Health | 29,193 | - | - |
| Transportation | 5,532,780 | - | - |
| Economic assistance & opportunity | 79,660 | - | 872,022 |
| Culture and recreation | 999,408 | - | 49,616 |
| Home and community services | 10,688,440 | 5,749,831 | - |
| Interest on long-term debt | 1,994,537 | - | - |
| Total governmental activities | 38,167,541 | 5,938,738 | 980,287 |

General revenues

Taxes:

- Real property taxes
- Real property tax-related items
- Sales tax distribution
- Mortgage tax distribution
- Franchise taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Fees, fines and licenses

Special item-Gain on sale of property and compensation for loss

Miscellaneous

Total general revenues and special items

Change in net assets

Net assets- beginning of year

Net assets - end of year

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

**NET (EXPENSE) REVENUE
AND CHANGES IN
NET ASSETS**

| | <u>CAPITAL GRANTS AND CONTRIBUTIONS</u> | | <u>GOVERNMENTAL ACTIVITIES</u> |
|----|--|----|---|
| \$ | - | \$ | (4,745,598) |
| | - | | (13,850,369) |
| | - | | (29,193) |
| | 346,265 | | (5,186,515) |
| | - | | 792,362 |
| | - | | (949,792) |
| | 472,496 | | (4,466,113) |
| | - | | (1,994,537) |
| | <u>818,761</u> | | <u>(30,429,755)</u> |

22,184,126

545,823

2,220,902

2,185,724

557,244

1,433,597

1,623,697

1,617,730

51,847

1,017,480

33,438,170

3,008,415

24,469,594

\$ 27,478,009

TOWN OF POUGHKEEPSIE, NEW YORK
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

| ASSETS | GENERAL FUND | HIGHWAY FUND | WATER FUND | SEWER FUND | CAPITAL PROJECTS FUND | NON-MAJOR GOVERNMENTAL FUNDS | TOTAL GOVERNMENTAL FUNDS |
|--|-------------------------|-------------------------|-----------------------|-----------------------|--------------------------------------|---|---|
| Cash and cash equivalents | \$ 3,842,159 | \$ 1,816,413 | \$ 1,909,155 | \$ 232,955 | \$ 2,970,564 | \$ 909,442 | \$ 11,680,688 |
| Restricted cash and investments | | - | - | - | 476,385 | - | 476,385 |
| Receivables: | | | | | | | |
| Charges for services | - | - | 724,073 | 595,337 | - | - | 1,319,410 |
| Other | 532,252 | 5,597 | - | - | - | 3,277 | 541,126 |
| Due from other funds | 105,366 | 2,845 | 545,257 | 60,988 | 133,613 | 149,159 | 997,228 |
| Due from other governments | 1,225,937 | - | - | 602 | 4,500,000 | - | 5,726,539 |
| Due from related party | - | - | 212,283 | - | - | - | 212,283 |
| State and federal receivable | 315,460 | 14,760 | - | - | - | 73,450 | 403,670 |
| Total assets | \$ 6,021,174 | \$ 1,839,615 | \$ 3,390,768 | \$ 889,882 | \$ 8,080,562 | \$ 1,135,328 | \$ 21,357,329 |
| LIABILITIES AND FUND EQUITY | | | | | | | |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 809,002 | \$ 196,635 | \$ 29,188 | \$ 210,619 | \$ 869,610 | \$ 136,454 | \$ 2,251,508 |
| Accrued expenses | 488,336 | 86,511 | 35,688 | 90,280 | - | 13,939 | 714,754 |
| Retainage payable | 2,075 | - | 4,619 | - | 152,223 | - | 158,917 |
| Bond anticipation note | - | - | - | - | 13,830,000 | - | 13,830,000 |
| Due to other funds | 234,978 | 112,620 | 29,337 | 493,625 | 118,155 | 8,513 | 997,228 |
| Due to other governments | 1,262,997 | 81,918 | 71,541 | 181,273 | - | 399,612 | 1,997,341 |
| Deferred revenues | 17,765 | - | 183,892 | 315,179 | 27,385 | - | 544,221 |
| Compensated absence obligation | 402,086 | - | - | - | - | - | 402,086 |
| Total liabilities | 3,217,239 | 477,684 | 354,265 | 1,290,976 | 14,997,373 | 558,518 | 20,896,055 |
| FUND EQUITY | | | | | | | |
| Fund balance (deficit): | | | | | | | |
| Reserved for: | | | | | | | |
| Encumbrances | 123,963 | 45,574 | 27,049 | 143,550 | - | - | 340,136 |
| Bonded debt | - | - | - | 413,558 | - | 171,621 | 585,179 |
| Miscellaneous | 8,726 | - | - | - | - | - | 8,726 |
| Unreserved: | | | | | | | |
| Subsequent year's expenditures | 415,000 | 400,000 | - | - | - | - | 815,000 |
| Undesignated | 2,256,246 | 916,357 | 3,009,454 | (958,202) | (6,916,811) | 405,189 | (1,287,767) |
| Total fund equity | 2,803,935 | 1,361,931 | 3,036,503 | (401,094) | (6,916,811) | 576,810 | 461,274 |
| Total liabilities and fund equity | \$ 6,021,174 | \$ 1,839,615 | \$ 3,390,768 | \$ 889,882 | \$ 8,080,562 | \$ 1,135,328 | \$ 21,357,329 |

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

TOWN OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

| | | |
|--|----|-----------------------------|
| Total fund equity for governmental funds | \$ | 461,274 |
| Total net assets reported for governmental activities in the statement of net assets are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | | 40,538,946 |
| Investment in joint venture is not reported in the funds | | 19,808,731 |
| Revenues are recorded when earned in the net assets of governmental activities. | | 350,477 |
| Long-term liabilities, including bonds payable, compensated absence, capital lease and landfill remediation liabilities, which are not due and payable in the current period, therefore are not reported in the funds. | | (33,393,471) |
| Bond issuance costs are not reported in the funds | | 123,260 |
| Inventory is not reported in the funds | | 13,125 |
| Accrued interest payable is not reported in the funds. | | <u>(424,333)</u> |
| Total net assets of governmental activities | | <u><u>\$ 27,478,009</u></u> |

TOWN OF POUGHKEEPSIE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

| | <u>GENERAL FUND</u> | <u>HIGHWAY FUND</u> | <u>WATER FUND</u> | <u>SEWER FUND</u> | <u>CAPITAL PROJECTS FUND</u> | <u>NON-MAJOR GOVERNMENTAL FUNDS</u> | <u>TOTAL GOVERNMENTAL FUNDS</u> |
|--|-------------------------|-------------------------|-----------------------|-----------------------|--------------------------------------|---|---|
| REVENUES | | | | | | | |
| Real property taxes | \$ 11,848,501 | \$ 4,591,835 | \$3,048,107 | \$ 1,516,308 | \$ - | \$ 1,179,375 | \$ 22,184,126 |
| Real property taxes items | 545,823 | - | - | - | - | - | 545,823 |
| Non property taxes items | 2,778,146 | - | - | - | - | - | 2,778,146 |
| Departmental income | 73,784 | - | 3,045,683 | 2,532,819 | - | - | 5,652,286 |
| Intergovernmental charges | 27,334 | - | - | - | - | - | 27,334 |
| Use of money and property | 695,048 | 165,526 | 323,023 | 57,917 | 67,049 | 315,134 | 1,623,697 |
| Licenses and permits | 947,314 | - | - | - | - | - | 947,314 |
| Fines and forfeitures | 670,416 | - | - | - | - | - | 670,416 |
| Sale of property and compensation for loss | 64,610 | 12,531 | 356 | - | - | - | 77,497 |
| Miscellaneous local sources | 719,633 | 40,955 | 21,385 | 5,798 | 210,750 | 18,689 | 1,017,210 |
| State aid | 3,163,698 | 398,476 | 1,612 | 17,519 | 610,437 | - | 4,191,742 |
| Federal aid | 143,035 | 96,585 | 4,963 | 53,958 | - | 872,022 | 1,170,563 |
| Total revenues | <u>21,677,342</u> | <u>5,305,908</u> | <u>6,445,129</u> | <u>4,184,319</u> | <u>888,236</u> | <u>2,385,220</u> | <u>40,886,154</u> |
| EXPENDITURES | | | | | | | |
| General government support | 4,793,883 | 79,110 | 118,218 | 78,812 | 140,226 | - | 5,210,249 |
| Public safety | 12,593,333 | - | - | - | - | - | 12,593,333 |
| Health | - | - | - | - | - | 29,193 | 29,193 |
| Transportation | 306,519 | 3,434,923 | - | - | 3,417,814 | 776,017 | 7,935,273 |
| Economic assistance & opportunity | 79,660 | - | - | - | - | - | 79,660 |
| Culture and recreation | 1,067,612 | - | - | - | - | - | 1,067,612 |
| Home and community services | 1,049,028 | - | 3,946,990 | 4,476,318 | 678,388 | 934,515 | 11,085,239 |
| Employee benefits | 909,779 | 166,008 | 86,879 | 88,827 | - | - | 1,251,493 |
| Debt service | 1,964,635 | 1,114,476 | 1,638,563 | 421,880 | - | 361,866 | 5,501,420 |
| Total expenditures | <u>22,764,449</u> | <u>4,794,517</u> | <u>5,790,650</u> | <u>5,065,837</u> | <u>4,236,428</u> | <u>2,101,591</u> | <u>44,753,472</u> |
| Excess of revenues over expenditures | (1,087,107) | 511,391 | 654,479 | (881,518) | (3,348,192) | 283,629 | (3,867,318) |
| Other financing sources: | | | | | | | |
| Proceeds from obligations | 177,500 | - | - | - | - | - | 177,500 |
| BAN's redeemed from appropriations | - | - | - | - | 370,000 | - | 370,000 |
| Operating transfers in | 382,250 | - | 132,520 | 2,979,847 | - | 62,493 | 3,557,110 |
| Operating transfers out | (62,493) | - | - | (2,905,229) | (132,520) | (456,868) | (3,557,110) |
| Total other financing sources | <u>497,257</u> | <u>-</u> | <u>132,520</u> | <u>74,618</u> | <u>237,480</u> | <u>(394,375)</u> | <u>547,500</u> |
| Excess (deficiency) of revenue and other sources over expenditures and other uses | (589,850) | 511,391 | 786,999 | (806,900) | (3,110,712) | (110,746) | (3,319,818) |
| Fund Balance, December 31, 2006 | <u>3,393,785</u> | <u>850,540</u> | <u>2,249,504</u> | <u>405,806</u> | <u>(3,806,099)</u> | <u>687,556</u> | <u>3,781,092</u> |
| Fund Balance, December 31, 2007 | <u>\$ 2,803,935</u> | <u>\$ 1,361,931</u> | <u>\$3,036,503</u> | <u>\$ (401,094)</u> | <u>\$ (6,916,811)</u> | <u>\$ 576,810</u> | <u>\$ 461,274</u> |

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

TOWN OF POUGHKEEPSIE, NEW YORK
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Net change in fund equities - total government funds \$ (3,319,818)

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report all capital outlays as expenditures. However, in the statement of activities, the cost of certain assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 2,553,899

Proceeds from all types of debt are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

| | | | |
|----------------------------|-----------|--|-----------|
| Repayments: | | | |
| Capital Leases | 275,570 | | |
| Serial Bond note principal | 3,090,000 | | |
| | | | 3,365,570 |

In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. 46,883

Bond issuance costs amortized (13,695)

Change in inventory is not reported in governmental funds (14,931)

Governmental funds report payments to joint ventures as expenditures, whether or not there is an ownership interest. In the statement of activities, expenditures related to an ownership interest are considered an capital investment. 145,963

Some expenses reported in the statement of activities, such as compensated absences and landfill liabilities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

| | | | |
|----------------------|-----------|--|---------|
| Compensated absences | (215,844) | | |
| Joint landfill | 337,649 | | |
| | | | 121,805 |

Revenues reported in the governmental funds that are not allocable to the current period are not reported in the statement of activities. 122,739

Net change in net assets of governmental activities \$ 3,008,415

TOWN OF POUGHKEEPSIE, NEW YORK
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2007

| | <u>AGENCY FUNDS</u> |
|---|--------------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 1,173,995</u> |
| Total assets | <u><u>\$ 1,173,995</u></u> |
| LIABILITIES | |
| Escrow funds returnable and other liabilities | <u>\$ 1,173,995</u> |
| Total liabilities | <u>1,173,995</u> |
| Total net assets | <u>-</u> |
| Total liabilities and net assets | <u><u>\$ 1,173,995</u></u> |

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE A - Summary of Significant Accounting Policies

The Town of Poughkeepsie, New York ("the Town") was incorporated in 1854, under the provisions of the State of New York. The Town operates under a Town Board form of government, consisting of a Supervisor and six Councilmen/women. The Supervisor serves as the Chief Executive Officer and as the Chief Fiscal Officer of the Town.

The Town provides the following services: highway maintenance, police, water, sewer, planning, zoning, building and safety inspection, lighting, and culture and recreation.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The Town is also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements in preparing its government-wide financial statements. The more significant accounting policies established by GAAP and used by the Town in preparing its government-wide and fund financial statements are discussed below.

1. The Reporting Entity

The Town, for financial purposes, includes all of the funds and relevant to the operations of the Town of Poughkeepsie, New York. The financial statements include organizations, functions and activities that are controlled by or dependent upon the Town. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Excluded from the reporting entity and described in **Note H - Joint Ventures**, are the Tri-Municipal Sewer Commission and the Poughkeepsie Joint Water Project; also excluded from the reporting entity is the City/Town of Poughkeepsie Regional Sewer Project. The Town of Poughkeepsie is not financially accountable for any of these joint entities under criteria established by GASB Statement No. 14 and, therefore no other entity is included in the reporting entity, "Town of Poughkeepsie." The City/Town of Poughkeepsie Regional Sewer Project is included in the reporting entity, the "City of Poughkeepsie."

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

2. Basic Financial Statements – Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type activities. The Town's police and fire protection, parks and recreation, public works, and general administrative services are classified as governmental activities. The Town's water and sewer services are also classified as governmental activities since user fees are not intended to cover all costs including depreciation.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis by column, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts—invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions or activities. The functions are also supported by general government revenues (property and sales taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.). Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs are normally covered by general revenue (property, sales or mortgage taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

3. Basic Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The following fund types are used by the Town:

A. Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income.

The following is a description of the governmental funds of the Town:

1. **General fund** is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is considered a major fund and is presented separately.
2. **Highway fund** is used to record the revenues and expenditures related to the maintenance of Town roadways. The Highway Fund is considered a major fund and is presented separately.
3. **Water Fund** is used to record the revenues and expenditures related to the delivery of water services to the Town's customers. The Water Fund is considered a major fund and is presented separately.
4. **Sewer Fund** is used to record the revenues and expenditures related to the delivery of sewer services to the Town's customers. The Sewer Fund is considered a major fund and is presented separately.
5. **Capital projects funds** are used to account for financial resources to be used for the acquisition and construction of major capital facilities. The Capital Projects Fund is considered a major fund and is presented separately. However, no budgetary comparison schedule is presented as required supplemental information, as the Town is not legally required to adopt an annual budget for the Capital Projects Fund.
6. **Non-major funds** include those that are used for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

B. Fiduciary Funds

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The Town's fiduciary funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

4. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

A. Accrual

The governmental activities in the government-wide financial statements and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

B. Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

5. Financial Statement Amounts

A. Cash and Investments

Cash includes amounts in demand and time deposits, as well as, short-term investments. State statutes and the Town's own investment policy govern the investment policies of the Town. The Town may invest its funds in banks or trust companies authorized to do business in the State of New York, as well as investing in obligations of the U.S. Treasury, U.S. Agencies, and obligations of the State of New York and its political subdivisions.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

Short-term investments consist of investments in U.S. Treasury Bills and in repurchase agreements. The repurchase agreements involve purchases by a broker of portfolio securities concurrently with an agreement by the broker to sell the same securities at a later date at a fixed price. Generally, the effect of such a transaction is that the Town can invest its excess cash balances at competitive interest rates. Market value of the repurchase agreements approximates cost plus accrued interest.

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. While the Town does not have a specific policy for custodial credit risk, New York State statutes govern the Town's investment policies, as discussed previously in these Notes. Governmental Accounting Standards Board Statement No. 40 *Deposit and Investment Risk Disclosure*, directs that deposits be disclosed as exposed to custodial credit risk if they are not covered by depository insurance, or collateralized by securities held by the Town or its agent in the Town's name. As of December 31, 2007, the Town's bank balance not was exposed to custodial credit risk.

The cash and investments of the Town at December 31, 2007, are as follows:

| | GENERAL | HIGHWAY | WATER | SEWER | CAPITAL | NON- | |
|-------------------|----------------------------|----------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-----------------------------|
| | FUND | FUND | FUND | FUND | PROJECTS | MAJOR | TOTAL |
| | FUND | FUND | FUND | FUND | FUND | FUND | |
| Non-Interest | | | | | | | |
| Bearing Accounts | \$ 1,075 | \$ - | \$ 50 | \$ 75 | \$ - | \$ 50 | \$ 1,250 |
| Interest Bearing | | | | | | | |
| Accounts | <u>3,841,084</u> | <u>1,816,413</u> | <u>1,909,105</u> | <u>232,880</u> | <u>2,970,564</u> | <u>909,392</u> | <u>11,679,438</u> |
| Subtotal | 3,842,159 | 1,816,413 | 1,909,155 | 232,955 | 2,970,564 | 909,442 | 11,680,688 |
| Restricted | | | | | | | |
| US Treasury Bills | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>476,385</u> | <u>-</u> | <u>476,385</u> |
| TOTAL | <u>\$ 3,842,159</u> | <u>\$ 1,816,413</u> | <u>\$ 1,909,155</u> | <u>\$ 232,955</u> | <u>\$ 3,446,949</u> | <u>\$ 909,442</u> | <u>\$ 12,157,073</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

The restricted cash invested in U.S. Treasury bills represents unspent bond proceeds whose use is limited to funding construction commitments related to improvements to the Joint Water Facility and is more fully described in **Note H.2**. Disclosures relating to risk and type of investments as presented are indicative of activity and positions held during the year.

B. Inventories

Inventories consist of significant expendable supplies primarily sand and road salt and are carried at cost in the government-wide financial statements.

C. Capital Assets

Capital assets purchased or acquired with an original cost of \$500 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs associated with capital projects which are not complete, are capitalized as Construction In Progress. No depreciation is recorded until the project is complete and the asset is placed in service. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|-------------------------|-------------|
| Buildings | 30 years |
| Infrastructure | 15-40 years |
| Machinery and equipment | 3-40 years |
| Improvements | 15 years |

D. Accumulated Compensated Absences

It is the Town's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the Town's service.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

The Town calculates its sick leave liability based on the assumption that most employees would continue to be employed by the Town until retirement. In governmental and fiduciary funds, the cost of vacation and sick leave is generally recognized when payments are made to employees. In prior years the Town has partially funded its liability for compensated absences through budgetary appropriations in the General Fund, amounting to \$402,086, with the balance of \$2,130,462 remaining un-funded. In the statement of net assets the liability of \$2,532,548 for accrued sick pay is recognized according to an estimate of payments in the following year and all future years.

| | |
|---------------------|----------------------------|
| Current portion | \$ 253,254 |
| Long-term liability | <u>2,279,294</u> |
| TOTAL | <u>\$ 2,532,548</u> |

E. Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

F. Budgets

The Town employs a formal budgetary accounting system as required by law. During the year, a budget was adopted and modified by the Town Board for the General Fund, Water Fund, Sewer Fund and Non-Major Funds. However, for the Capital Projects Fund, budgets are established at the project level and continue until the project is completed. Any budgets, which include appropriations of fund balance, show expenditures exceeding revenues. Unused appropriations of the annually budgeted funds lapse at the end of the year.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

G. Pension Plans

Plan Description

The Town of Poughkeepsie participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York State and Local Employees' Retirement System after July 27, 1976 who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Town of Poughkeepsie is required to contribute at an actuarially determined rate. The required contributions for the current year and two preceding years were:

| | <u>ERS</u> | <u>PFRS</u> |
|------|-------------------|---------------------|
| 2007 | <u>\$ 682,381</u> | <u>\$ 1,592,177</u> |
| 2006 | <u>\$ 757,147</u> | <u>\$ 1,630,424</u> |
| 2005 | <u>\$ 757,285</u> | <u>\$ 1,398,332</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

The Town's contributions made to the Systems were equal to or in excess of 100 percent of the contributions required for each year.

H. Post Employment Benefits

In addition to providing pension benefits, the Town provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the Town employees may become eligible for these benefits if they reach normal retirement age while working for the Town. Health care benefits and survivors benefits are provided through insurance companies whose premiums are based on the benefits paid during the year. Employees contribute approximately 75% of the premiums. For the year of 2007, approximately \$683,000 was paid on behalf of seventy retirees and/or dependents and recorded as expenditures in the General, Water, Sewer and Non-Major Funds.

I. Property Taxes

The Town submits an approved budget to the Dutchess County Commissioner of Finance by December 5th of the previous year. The County then establishes the warrant for the year which is due and payable on or about January 1 of each year. The Town collects the taxes on behalf of the Town and County without penalty through February 28th and with penalties and interest through August 31st. The Town's portion of the taxes is recognized and transferred prior to the County's portion. Therefore, the Town receives its entire tax, leaving the un-paid balances to be collected by Dutchess County.

J. Insurance

The Town of Poughkeepsie assumes the liability for most risk including, but not limited to, property damage and personal injury liability. Such risks are covered by the purchase of commercial insurance. Judgments and claims are recorded when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. Workers compensation coverage is provided through a retrospective policy, wherein premiums are recorded based on the ultimate cost of the experience to date of workers in similar occupations.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

K. Long-Term Liabilities

Long-Term Debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other Long-Term Obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the Long-Term Liabilities.

L. Reserves of Fund Equity

The Town records indicate that a portion of the fund equity is legally segregated for a specific future use. The following details the description and amounts of the reserves used by the Town:

| | BALANCE AT <u>DECEMBER 31, 2007</u> |
|-----------------------------------|--|
| GENERAL FUND | |
| Reserved for Encumbrances | \$ 123,963 |
| Reserved for Miscellaneous | <u>8,726</u> |
| Total General Fund Reserves | <u>132,689</u> |
| HIGHWAY FUND | |
| Reserved for Encumbrances | <u>45,574</u> |
| WATER FUND | |
| Reserved for Encumbrances | <u>27,049</u> |
| SEWER FUND | |
| Reserved for Encumbrances | 143,550 |
| Reserved for Bonded Debt | <u>413,558</u> |
| Total Sewer Fund Reserves | <u>557,108</u> |
| CAPITAL PROJECTS FUND | |
| Reserved for Encumbrances | <u>-</u> |
| NON-MAJOR FUNDS | |
| Reserved for Bonded Debt | <u>171,621</u> |
| TOTAL FUND EQUITY RESERVES | <u>\$ 934,041</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note A - Summary of Significant Accounting Policies, (Continued)

5. Financial Statement Amounts (Continued)

M. Use of Estimates

The preparation of basic financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and the accompanying notes. Actual results could differ from those estimates.

Note B – Other Receivables

Other Receivables at December 31, 2007 consist of the following:

| | GENERAL FUND | HIGHWAY FUND | WATER FUND | SEWER FUND | CAPITAL PROJECTS FUND | NON-MAJOR FUNDS | TOTAL |
|------------------------|-------------------------|-------------------------|-----------------------|-----------------------|--------------------------------------|----------------------------|---------------------|
| Accounts Receivable | \$ 532,252 | \$ 5,597 | \$ - | \$ - | \$ - | \$ 76,727 | \$ 614,576 |
| Water Rents Receivable | - | - | 724,073 | - | - | - | 724,073 |
| Sewer Rents Receivable | - | - | - | 595,337 | - | - | 595,337 |
| Totals | <u>\$ 532,252</u> | <u>\$ 5,597</u> | <u>\$ 724,073</u> | <u>\$ 595,337</u> | <u>\$ -</u> | <u>\$ 76,727</u> | <u>\$ 1,933,986</u> |

Note C – Interfund Receivables, Payables and Transfers

The following is a summary of amounts due from and due to other funds as of December 31, 2007. These inter-fund balances have been eliminated as part of the aggregation of fund balances. Such balances arise through the use of a pooled cash disbursement account, district transfers for sewer operations and the temporary funding of capital projects.

| FUND | RECEIVABLE | PAYABLE |
|-----------------------|---------------------|----------------------|
| General | \$ 105,366 | \$ 234,978 |
| Highway | 2,845 | 112,620 |
| Water | 545,257 | 29,337 |
| Sewer | 60,988 | 493,625 |
| Non-Major | 149,159 | 8,513 |
| Capital Projects Fund | 133,613 | 118,155 |
| Total | <u>\$ 997,228</u> | <u>\$ 997,228</u> |
| | TRANSFERS IN | TRANSFERS OUT |
| General | \$ 382,250 | \$ 62,493 |
| Sewer | 2,979,847 | 2,905,229 |
| Water | 132,520 | - |
| Capital Projects | - | 132,520 |
| Non-Major | 62,493 | 456,868 |
| Total | <u>\$ 3,557,110</u> | <u>\$ 3,557,110</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note D – Capital Assets

The following is a summary of changes and adjustments in the Capital Assets, for the year ended December 31, 2007:

| | BALANCE | | | BALANCE |
|---------------------------------------|----------------------|-------------------------|---------------------------|----------------------|
| | JANUARY 1, | | | DECEMBER 31, |
| Governmental activities: | <u>2007</u> | <u>ADDITIONS</u> | <u>(DISPOSALS)</u> | <u>2007</u> |
| Land | \$ 10,686,296 | \$ - | \$ - | \$ 10,686,296 |
| Buildings | 14,293,892 | 331,693 | - | 14,625,585 |
| Town Roads and Other Infrastructure | 71,513,328 | 3,932,831 | - | 75,446,159 |
| Improvements other than buildings | 1,853,800 | 121,801 | - | 1,975,601 |
| Machinery & equipment | <u>7,694,290</u> | <u>803,916</u> | <u>(258,700)</u> | <u>8,239,506</u> |
| Total | <u>106,041,606</u> | <u>5,190,241</u> | <u>(258,700)</u> | <u>110,973,147</u> |
| Less accumulated depreciation | | | | |
| Buildings | (6,192,910) | (339,413) | - | (6,532,323) |
| Town Roads and Other Infrastructure | (56,590,820) | (1,223,185) | - | (57,814,005) |
| Improvements | (1,361,285) | (77,865) | - | (1,439,150) |
| Machinery & equipment | <u>(4,089,044)</u> | <u>(742,660)</u> | <u>182,981</u> | <u>(4,648,723)</u> |
| Total accumulated depreciation | <u>(68,234,059)</u> | <u>(2,383,123)</u> | <u>182,981</u> | <u>(70,434,201)</u> |
| Governmental activities | | | | |
| capital assets, net | <u>\$ 37,807,547</u> | <u>\$ 2,807,118</u> | <u>\$ (75,719)</u> | <u>\$ 40,538,946</u> |

*Depreciation was charged to governmental activities as follows:

| | |
|-----------------------------------|---------------------|
| General government support | \$ 162,391 |
| Public Safety | 545,171 |
| Transportation | 1,455,173 |
| Home & community | 185,590 |
| Culture & recreation | <u>34,798</u> |
| Total depreciation expense | <u>\$ 2,383,123</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note E - Bond Anticipation Notes Payable

Bond Anticipation Notes Payable are renewed annually and are not to exceed five renewals, except for water and sewer improvements which may be renewed for the life of the improvement not to exceed twenty years.

The changes in Bond Anticipation Notes Payable are:

| <u>PURPOSE</u> | <u>BALANCE JANUARY 1, 2007</u> | <u>NEW ISSUES</u> | <u>PAYMENTS</u> | <u>BALANCE DECEMBER 31, 2007</u> |
|----------------|--|-----------------------|---------------------|--|
| Joint Landfill | \$ 9,700,000 | \$ - | \$ (370,000) | \$ 9,330,000 |
| Library | - | 4,500,000 | - | 4,500,000 |
| Total | <u>\$ 9,700,000</u> | <u>\$ 4,500,000</u> | <u>\$ (370,000)</u> | <u>\$ 13,830,000</u> |

The Town has borrowed \$4,500,000 in 2007 on behalf of the Greater Poughkeepsie Library District for capital improvements to the Adriance Memorial Library. The Library District is paying the debt service for this Bond Anticipation Note. Consequently, the Town has recorded a \$4,500,000 asset in the Capital Projects Fund which represents Due from the Greater Poughkeepsie Library District.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

NOTE F - Long Term Debt

1. Serial Bonds Outstanding

The Serial Bonds Payable, as of December 31, 2007, are as follows:

| <u>PURPOSE</u> | <u>ORIGINAL ISSUE DATE</u> | <u>FINAL MATURITY DATE</u> | <u>INTEREST RATE</u> | <u>ORIGINAL AMOUNT OF ISSUE</u> | <u>AMOUNT OUTSTANDING DECEMBER 31, 2007</u> |
|--|------------------------------------|--------------------------------|--------------------------|---|---|
| Sewer | 09/01/69 | 03/01/09 | 7.50% | \$ 2,369,000 | \$ 100,000 |
| Water | 03/15/77 | 05/15/08 | 5.875% | 3,814,800 | 125,000 |
| Water | 07/01/78 | 04/01/08 | 6.00% | 2,135,000 | 75,000 |
| Town-Wide Drainage Public Improvements | 04/15/97 | 04/15/17 | Various | 1,700,000 | 1,065,000 |
| Police/Court Facility Public Improvements | 02/15/98 | 08/15/17 | 6.74% | 1,400,000 | 770,000 |
| Police/Court Facility Public Improvements | 02/15/98 | 08/15/17 | 4.52% | 5,600,000 | 3,080,000 |
| Water Improvements | 07/29/99 | 04/15/19 | 3.48% | 4,526,668 | 2,925,000 |
| Water Improvements | 02/14/02 | 10/15/23 | 1.51% | 7,194,417 | 5,825,000 |
| Various Purpose | 6/1/2003 | 6/1/2018 | 2.98% | 6,445,000 | 4,010,000 |
| Public Improvements | 9/15/2004 | 3/15/2019 | 3.529% | 5,555,000 | 4,565,000 |
| Public Improvements Refunding | 9/15/2004 | 12/15/2016 | Various | 3,025,000 | 2,130,000 |
| Public Improvements Refunding | 9/15/2004 | 12/15/2016 | Various | 6,415,000 | 3,955,000 |
| Water Improvements | 07/15/06 | 12/15/2016 | 4.600% | 901,057 | 866,057 |
| TOTALS | | | | <u>\$ 51,080,942</u> | <u>\$ 29,491,057</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

NOTE F - Long Term Debt, (Continued)

2. In-Substance Defeasance of Debt

In September 2004, the Town issued \$9,440,000 in General Obligation Bonds with an average interest rate of 3.38 percent to advance refund \$8,825,000 of outstanding 1993 and 1996 Series bonds with rates ranging from 4.15 to 5.10 %. The net proceeds of \$9,308,515 (including bond premium of \$32,860 and less payment of \$164,345 in underwriting fees, insurance, and other insurance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1993 and 1996 Series bonds. As a result, these Series bonds are considered to be defeased and the liability for the bonds has been removed from the Town's accounts. As of December 31, 2006, \$5,730,000 in bonds considered defeased were outstanding. The Town recorded a net loss on refunding of \$526,360 in 2004 in the government-wide financial statements but expects a net economic gain of \$79,875 in present value savings.

3. Capital Lease Program

The Town has entered into capital leases for certain police and highway vehicles with a total asset cost of \$1,614,297 with accumulated amortization of \$616,478. These leases are considered to be capital leases for accounting purposes, wherein, at the end of the lease the Town may purchase the asset for a nominal amount. Payments for 2007 amounted to \$318,684 including interest of \$43,114. At December 31, 2007, the annual capital lease payments are as follows:

| <u>YEAR ENDING</u> <u>DECEMBER 31,</u> | <u>CAPITAL</u> <u>LEASES</u> |
|---|---|
| 2008 | \$297,117 |
| 2009 | 234,617 |
| 2010 | 180,223 |
| 2011 | 180,223 |
| 2012 | <u>180,223</u> |
| | 1,072,403 |
| Less: Interest portion | <u>(102,416)</u> |
| Total minimum lease payments | <u>\$969,987</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

NOTE F - Long Term Debt, (Continued)

4. Changes in Long Term Debt:

The changes in the Town's indebtedness during the year ended December 31, 2007, are summarized as follows:

| | BALANCE | | | BALANCE | AMOUNTS DUE |
|--------------------------------------|----------------------|-------------------|-----------------------|----------------------|---------------------|
| | JANUARY 1, | INCREASE | (DECREASE) | DECEMBER 31, | WITHIN |
| | 2007 | | | 2007 | ONE YEAR |
| Serial Bonds | \$ 32,581,057 | \$ - | \$ (3,090,000) | \$ 29,491,057 | \$ 2,760,000 |
| Capital Lease | 1,068,057 | 177,500 | (275,570) | 969,987 | 260,671 |
| Landfill Closure and Post Closure | 1,139,614 | - | (337,649) | 801,965 | 19,471 |
| Compensated Absences | 2,316,705 | 215,843 | - | 2,532,548 | 253,254 |
| TOTAL | <u>\$ 37,105,433</u> | <u>\$ 393,343</u> | <u>\$ (3,703,219)</u> | <u>\$ 33,795,557</u> | <u>\$ 3,293,396</u> |

The Compensated Absence liability includes a funded and an un-funded portion, as described in Note 5E.

5. Amortization of Bonded Debt

The annual requirements to amortize bonded debt, as of December 31, 2007, are as follows:

| YEAR ENDING | PRINCIPAL | INTEREST | TOTAL |
|---------------------|----------------------|---------------------|----------------------|
| <u>DECEMBER 31,</u> | | | |
| 2008 | 2,760,000 | 1,202,291 | 3,962,291 |
| 2009 | 2,461,057 | 1,099,536 | 3,560,593 |
| 2010 | 2,460,000 | 997,410 | 3,457,410 |
| 2011 | 2,435,000 | 896,876 | 3,331,876 |
| 2012 | 2,490,000 | 804,192 | 3,294,192 |
| 2013-2017 | 12,455,000 | 2,458,056 | 14,913,056 |
| 2018-2022 | 3,755,000 | 559,344 | 4,314,344 |
| 2023-2026 | 675,000 | 44,627 | 719,627 |
| Total | <u>\$ 29,491,057</u> | <u>\$ 8,062,332</u> | <u>\$ 37,553,389</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note G - Operating Leases

The Town is committed under various leases for office space, repair facilities and office and communication equipment. These leases are considered for accounting purposes to be operating leases. Lease expenditures for the year ended December 31, 2007 amounted to \$99,866.

At December 31, 2007, the approximate annual operating lease commitments, subject to appropriation of funds, were as follows:

| <u>YEAR ENDING</u> <u>DECEMBER 31,</u> | <u>OPERATING</u> <u>LEASES</u> |
|---|-----------------------------------|
| 2008 | \$ 55,418 |
| 2009 | 51,696 |
| 2010 | 8,961 |
| 2011 | <u>672</u> |
| Total minimum lease payments | <u>\$ 116,747</u> |

Note H - Joint Ventures

The following activities have been undertaken by the Town jointly with other municipalities. These activities are excluded from the financial statements of the Town. Separate financial statements are issued for these joint ventures.

1. Tri-Municipal Sewer Commission

In 1975, the Town joined with the Village of Wappingers Falls and the Towns of Wappinger and LaGrange to construct and operate an inter-municipal sewer treatment system. In 1982, the Towns of Wappinger and LaGrange elected to discontinue participation in the system, and the Town of Poughkeepsie and the Village of Wappingers Falls continued joint construction and operation of the system under the name, Tri-Municipal Sewer Commission.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note H - Joint Ventures (Continued)

1. Tri-Municipal Sewer Commission (Continued)

Operation and maintenance costs are allocated between the parties based on waste flow. For the year ended December 31, 2007, the Town incurred a cost of approximately \$168,638 for its share of operation and maintenance costs.

The following is a summary of unaudited financial information at December 31, 2007 included in the financial statements issued for this joint venture. A copy of the Commission's financial statements can be obtained from the Tri-Municipal Sewer Commission.

| | Unaudited Balances at <u>December 31, 2007</u> |
|---------------------------------------|---|
| Total Assets (excluding fixed assets) | <u>\$ 1,200,926</u> |
| Total Liabilities | <u>\$ 303,740</u> |
| Joint Venture Equity | <u>\$ 897,186</u> |
| Total Revenues - 2007 | <u>\$1,422,342</u> |
| Total Expenditures - 2007 | <u>\$1,491,073</u> |
| Total Fixed Assets | <u>\$39,240,356</u> |

2. Poughkeepsie Joint Water Project

In August 1995, the Town entered into an inter-municipal agreement with the City of Poughkeepsie to provide for the planning, design, technological enhancement, construction or expansion, and operation and maintenance of the above named water treatment facility. This agreement amends and supersedes an agreement dated October 11, 1991 covering a joint water project. Under the terms of the 1995 agreement, the Town obtained an one-half interest in the City's Water treatment plant; the Town would finance studies for and upgrades and/or expansions to the plant to increase capacity; the Town would pay 50% of the cost to design and build an alum sludge treatment plant; and the Town would pay for administrative costs related to obtaining approvals to enable the project to proceed. The agreement also provided for the creation of a joint board to administer planning, design, construction, as well as operations and maintenance of the facility. It is made up of three members from each municipality. Water rates for each municipality are also described in the agreement. Operations as a joint venture began in 1996.

The Town financed the purchase of its interest in the water plant and payment of certain capital improvements by issuing serial bonds in December 1996 in the amount of \$6,425,000, which is recorded as Long-Term Debt. The bond was refinanced during 2004 and is included as Refunding Improvement Bonds for 2004.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note H - Joint Ventures (Continued)

2. Poughkeepsie Joint Water Project (Continued)

The following is an un-audited summary of financial information included in financial statements issued for the joint venture. These financial statements are issued separately and can be obtained from the Joint Water Project at 62 Civic Center Plaza, Poughkeepsie, NY 12601.

| | Unaudited Balances at <u>December 31, 2007</u> |
|----------------------------|---|
| Total Assets | <u>\$ 2,944,083</u> |
| Total Liabilities | <u>\$ 2,932,848</u> |
| Joint Venture Equity | <u>\$ 11,235</u> |
| Total Revenues – 2007 | <u>\$ 3,656,061</u> |
| Total Expenditures - 2007 | <u>\$ 3,651,418</u> |
| Long Term Debt | <u>\$ 376,430</u> |
| Investment in Fixed Assets | <u>\$25,406,777</u> |

The Town's net share of operating expenditures amounted to \$2,166,169, which is recorded in the Water Fund - Home and Community Service. Included in Due from Related Party is \$212,283 representing the balance due to the Town for overpayment of its operating costs.

As part of the Joint Project agreement described above, the Town has committed to financing studies and a portion of construction costs related to the expansion of the Joint Water treatment facility. The Town estimated total construction costs to approximate \$19,363,000 with \$11,232,000 being financed by the Town and \$8,131,000 being financed by the City of Poughkeepsie. The Town issued debt totaling \$11,721,085 to fund this commitment. As of December 31, 2007 the outstanding balance is \$8,750,000. The Town's share of construction costs incurred by the Joint Venture related to plant improvements amounted to \$145,963 for 2007.

The Town has presented its equity interest in the Joint Venture in the Statement of Net Assets as \$19,808,731, representing the Town's capital expenditures to date and the amount of net assets invested in the Joint Venture, net of outstanding debt as \$6,598,731.

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note H - Joint Ventures (Continued)

3. Poughkeepsie-Wappingers-LaGrange Joint Landfill

The Town has shared in the monitoring costs of a closed landfill, the Poughkeepsie-Wappinger-LaGrange Joint Landfill. This joint activity includes the City and Town of Poughkeepsie, New York, the Village of Wappingers Falls, New York, the Town of LaGrange, New York and the Town of Wappinger, New York. All costs associated with monitoring are recognized as incurred. The Town's share of monitoring costs, for the year ended December 31, 2007, amounted to \$8,293.

The following is a summary of unaudited financial information at December 31, 2007, which is included in the separate financial statements available from the Joint Landfill Board of Governors c/o Town of Poughkeepsie, Poughkeepsie, New York, 12603.

| | Un-audited Balances at <u>December 31, 2007</u> |
|----------------------|--|
| Total Assets | <u>\$ 227,972</u> |
| Total Liabilities | <u>\$ -0-</u> |
| Total Venture Equity | <u>\$ 227,972</u> |
| Total Revenues | <u>\$ 1,821,702</u> |
| Total Expenditures | <u>\$ 2,571,477</u> |

During 2003, an Order of Consent was issued through the New York State Department of Environmental Conservation to remediate Environmental Conservation Law and New York Codes Rule and Regulations violations. To comply with this order, the member municipalities must complete final closure of the landfill under current regulations by December 31, 2005 and perform post closure care and monitoring for a minimum of thirty years thereafter. The estimated cost of final closure is \$10,000,000. All costs will be borne proportionately by each municipality; the Town of Poughkeepsie's share being 42.4208%, or \$4,242,074. Post closure and monitoring costs, which will commence in 2008 and continue for 30 years, are estimated to amount to \$1,890,500, with the Town's share being \$801,965.

To finance this project the member municipalities have applied for a grant through the NYSDEC's LCSAP program to the extent of \$2,000,000. Additional funding will come from the issuance of debt by each municipality.

**TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007**

NOTE I - Legal Compliance

1. Deficit Fund Balances

The following special districts and funds have material deficit fund balances at year-end as shown. The Town intends to increase revenues to fund these deficits.

| | Fund Balance (Deficit) |
|------------------------------------|---------------------------------------|
| <u>Sewer Fund</u> | <u>\$ (401,094)</u> |
| <u>Street Lighting Fund</u> | <u>\$ (20,223)</u> |

2. Overdrawn Appropriations

Expenditures in the following fund/categories materially exceeded appropriations:

| <u>FUND/CATEGORY</u> | <u>APPROPRIATION</u> | <u>EXPENDITURE</u> | <u>VARIANCE (UNFAVORABLE)</u> |
|------------------------------------|-----------------------------|---------------------------|--|
| General Fund/ Employee Benefits | \$ 777,000 | \$ 909,779 | \$ (132,779) |
| General Fund/ Debt Service | \$ 1,293,930 | \$ 1,826,174 | \$ (532,244) |
| Sewer Fund/ Interfund Transfers | \$ 1,642,868 | \$ 2,905,229 | \$ (1,262,361) |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note J - Economic Dependency

The Town receives approximately 10% of its real property taxes from a single corporate taxpayer. A significant reduction in this corporate taxpayers real property taxes could have a significant impact on the Town's programs and services.

Note K - Commitments and Contingent Liabilities

1. Lawsuits and Claims

The Town is a defendant in various lawsuits and tax certiorari cases. The ultimate outcome of these cases and lawsuits is not determinable as of report date. However, in the opinion of the Town's counsel, while the ultimate resolution of these proceedings will not have a material effect on the Town's financial position, although they could have a material effect on operating results when finally resolved in a future period.

2. Grants

The Town has received amounts from grantor agencies, principally the Department of Housing and Urban Development. Any allowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time.

3. Authorized Debt

As of December 31, 2007, the Town Board had authorized debt which was not issued:

| <u>PURPOSE</u> | <u>AUTHORIZED</u> |
|--|-----------------------------|
| Tri-Municipal Sewer System | \$ 1,755,000 |
| Town-Wide Drainage | 395,197 |
| Additions & Reconstruction of Buildings | 2,786,000 |
| Assessment Update - 2001 | 125,000 |
| Water Improvement | 1,448,332 |
| Arlington Sewer Improvement Area 1 - 2002 | 5,200,000 |
| Reconstruction of Library - 2007 | <u>3,965,148</u> |
| TOTAL | <u>\$ 15,674,677</u> |

TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE FINANCIAL STATEMENTS, (CONTINUED)
DECEMBER 31, 2007

Note L - Commitments and Contingent Liabilities (Continued)

Most of the above projects have been completed, so that, with the exception of the Town-Wide Drainage, Water Improvement, and Sewer Improvement Projects, the Town does not expect to exercise these authorizations.

Note M – Subsequent Events

The Town has issued or authorized the following new debt:

| | | |
|-------------------|----------|---------------------|
| Road Improvements | March-08 | <u>\$ 4,500,000</u> |
|-------------------|----------|---------------------|

Note N – New Reporting Standard

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes certain new financial reporting requirements for state and local governments throughout the United States. When implemented, it will require the reporting of liabilities pertaining to postemployment benefits earned by employees on a current basis. The Town is required to implement this standard for the year ending December 31, 2008. The Town is in the process of implementing the provisions of GASB Statement 45. The implementation of GASB Statement 45 will have a substantive effect on the Town's government wide financial position. However, the Town does not believe that it will have a significant effect on its governmental (fund) financial position, upon which the Town's budgets are based and taxes are raised.

REQUIRED SUPPLEMENTAL INFORMATION

TOWN OF POUGHKEEPSIE, NEW YORK
BUDGETARY COMPARISON SCHEDULE
December 31, 2007

GENERAL FUND

| | <u>ORIGINAL BUDGET</u> | <u>FINAL BUDGET</u> | <u>ACTUAL</u> | <u>VARIANCE FAVORABLE (UNFAVORABLE)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| REVENUES | | | | |
| Real property taxes | \$ 11,847,446 | \$ 11,846,821 | 11,846,821 | \$ - |
| Real property tax items | 475,000 | 477,500 | 547,503 | 70,003 |
| Non property tax items | 2,725,000 | 2,725,000 | 2,778,146 | 53,146 |
| Departmental income | 12,800 | 459,621 | 73,784 | (385,837) |
| Intergovernmental charges | 455,485 | 72,804 | 27,334 | (45,470) |
| Use of money and property | 757,630 | 757,630 | 695,048 | (62,582) |
| Licenses and permits | 815,670 | 815,670 | 947,314 | 131,644 |
| Fines and forfeitures | 550,000 | 550,000 | 670,416 | 120,416 |
| Sale of property and compensation for loss | 26,200 | 35,532 | 64,610 | 29,078 |
| Miscellaneous local sources | 22,200 | 512,885 | 719,633 | 206,748 |
| Interfund revenues | - | - | - | - |
| State aid | 2,809,500 | 3,171,803 | 3,163,698 | (8,105) |
| Federal aid | 5,000 | 68,973 | 143,035 | 74,062 |
| Total revenues | <u>20,501,931</u> | <u>21,494,239</u> | <u>21,677,342</u> | <u>183,103</u> |
| Appropriation of prior's year's fund balance | <u>1,000,000</u> | <u>1,025,000</u> | <u>637,337</u> | <u>(387,663)</u> |
| Total revenues and appropriation of prior year's fund balance | <u>21,501,931</u> | <u>22,519,239</u> | <u>22,314,679</u> | <u>(204,560)</u> |
| EXPENDITURES AND ENCUMBRANCES | | | | |
| General Government Support | 4,706,879 | 4,908,122 | 4,814,006 | 94,116 |
| Public safety | 12,676,298 | 12,962,519 | 12,676,735 | 285,784 |
| Transportation | 296,205 | 296,205 | 306,822 | (10,617) |
| Economic assistance & opportunity | 75,918 | 75,918 | 79,660 | (3,742) |
| Culture and recreation | 772,495 | 1,222,559 | 1,087,747 | 134,812 |
| Home and community service | 900,706 | 1,118,885 | 1,049,028 | 69,857 |
| Employee benefits | 777,000 | 777,000 | 909,779 | (132,779) |
| Debt service | 1,293,930 | 1,293,930 | 1,964,635 | (670,705) |
| Total expenditures and encumbrances | <u>21,499,431</u> | <u>22,655,138</u> | <u>22,888,412</u> | <u>(233,274)</u> |
| Excess (deficiency) of revenues and appropriation of prior year's fund balance over (under) expenditures and encumbrances | 2,500 | (135,899) | (573,733) | (437,834) |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | 382,250 | 382,250 |
| Operating transfers out | (2,500) | (2,500) | (62,493) | (59,993) |
| Total other financing sources (uses) | <u>(2,500)</u> | <u>(2,500)</u> | <u>319,757</u> | <u>322,257</u> |
| Excess (deficiency) of revenues and appropriation of prior year's fund balance and other sources over (under) expenditures, encumbrances and other uses | <u>\$ -</u> | <u>\$ (138,399)</u> | <u>\$ (253,976)</u> | <u>\$ (115,577)</u> |

The accompanying Notes to the Financial Statements
should be read in conjunction with these Financial Statements.

HIGHWAY FUND

| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|----------------------------|-------------------------|-------------------|---|
| \$ 4,591,835 | \$ 4,591,835 | \$ 4,591,835 | \$ - |
| | - | | - |
| | - | | - |
| | - | | - |
| 102,000 | 99,000 | 165,526 | 66,526 |
| | - | - | - |
| | - | | - |
| | 9,231 | 12,531 | 3,300 |
| | - | 40,955 | 40,955 |
| | - | | - |
| 253,000 | 253,000 | 398,476 | 145,476 |
| | 113,049 | 96,585 | (16,464) |
| <u>4,946,835</u> | <u>5,066,115</u> | <u>5,305,908</u> | <u>239,793</u> |
| <u>100,000</u> | <u>100,000</u> | <u>-</u> | <u>(100,000)</u> |
| <u>5,046,835</u> | <u>5,166,115</u> | <u>5,305,908</u> | <u>139,793</u> |
| | 72,318 | 79,110 | (6,792) |
| | - | | - |
| 3,960,490 | 4,195,091 | 3,480,497 | 714,594 |
| | - | | - |
| | - | | - |
| 152,100 | 152,100 | 166,008 | (13,908) |
| <u>934,245</u> | <u>934,245</u> | <u>1,114,476</u> | <u>(180,231)</u> |
| <u>5,046,835</u> | <u>5,353,754</u> | <u>4,840,091</u> | <u>513,663</u> |
| | (187,639) | 465,817 | 653,456 |
| - | - | - | - |
| - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ -</u> | <u>\$ (187,639)</u> | <u>\$ 465,817</u> | <u>\$ 278,178</u> |

WATER FUND

| ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE FAVORABLE (UNFAVORABLE) |
|----------------------------|-------------------------|-------------------|---|
| \$ 3,048,107 | \$ 3,048,107 | \$ 3,048,107 | \$ - |
| - | - | - | - |
| - | - | - | - |
| 3,205,500 | 3,223,609 | 3,045,683 | (177,926) |
| - | - | - | - |
| 200,000 | 200,000 | 323,023 | 123,023 |
| - | - | - | - |
| - | - | - | - |
| - | - | 356 | 356 |
| 7,500 | 7,500 | 21,385 | 13,885 |
| - | - | - | - |
| - | - | 1,612 | 1,612 |
| - | 6,575 | 4,963 | (1,612) |
| <u>6,461,107</u> | <u>6,485,791</u> | <u>6,445,129</u> | <u>(40,662)</u> |
| - | - | - | - |
| <u>6,461,107</u> | <u>6,485,791</u> | <u>6,445,129</u> | <u>(40,662)</u> |
| 90,000 | 90,000 | 118,218 | (28,218) |
| - | - | - | - |
| - | - | - | - |
| - | - | - | - |
| 4,549,432 | 4,577,152 | 3,974,039 | 603,113 |
| 69,325 | 69,325 | 86,879 | (17,554) |
| 1,752,350 | 1,752,350 | 1,638,563 | 113,787 |
| <u>6,461,107</u> | <u>6,488,827</u> | <u>5,817,699</u> | <u>671,128</u> |
| - | (3,036) | 627,430 | 630,466 |
| - | - | - | - |
| - | - | - | - |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| <u>\$ -</u> | <u>\$ (3,036)</u> | <u>\$ 627,430</u> | <u>\$ 624,394</u> |

OTHER SUPPLEMENTAL INFORMATION

**TOWN OF POUGHKEEPSIE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

EXHIBIT II

| FEDERAL GRANTOR/ PROGRAM TITLE | Federal CFDA Number | Pass-Through Entity Identifying Number | Expenditures - Year Ended December 31, 2007 |
|---|------------------------------------|---|--|
| US Dept of Housing and Urban Development: | | | |
| Section 8 Housing Choice Vouchers | 14.871 | | \$ 739,029 * |
| Community Development Block Grants- Entitlement Grants | 14.218 | | <u>132,993</u> |
| Total US Dept of Housing and Urban Development | | | 872,022 |
| US Dept of Homeland Security: | | | |
| Pass-Through Programs From: | | | |
| New York State Emergency Management Office Public Assistance | 97.036 | 1692 | <u>298,541</u> |
| TOTAL | | | <u>\$ 1,170,563</u> |

*Major Program

**TOWN OF POUGHKEEPSIE, NEW YORK
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2007**

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Town of Poughkeepsie, New York and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statement

| | |
|--|--------------------|
| Type of Auditors' report issued: | <u>Unqualified</u> |
| Internal control over financial reporting: | |
| Material Weakness identified: | <u>None Noted</u> |
| • Significant deficiencies identified that are not considered to be material weaknesses: | <u>One Noted</u> |
| Noncompliance material to financial statements noted: | <u>None Noted</u> |

Federal Awards

| | |
|--|--------------------|
| Internal Control over major programs: | |
| Material weakness identified: | <u>None Noted</u> |
| • Reportable conditions identified that are not considered to be material weaknesses: | <u>None Noted</u> |
| Type of report issued on compliance for major programs: | <u>Unqualified</u> |
| Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133: | <u>None Noted</u> |

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2007**

SECTION I - SUMMARY OF AUDITORS' RESULTS, (Continued)

Identification of major programs:

| <u>CFDA NUMBER</u> | <u>PROGRAM</u> | <u>NAME OF FEDERAL</u> |
|--|--|-------------------------------|
| 14.856 | Housing Assistance Payments Program for Low-Income Families - Section 8 programs | |
| Dollar threshold used to distinguish between Type A and Type B programs: | \$ 300,000 | |
| Auditee classified as a low-risk auditee: | Yes | |

SECTION II - FINANCIAL STATEMENT FINDINGS

Current Year Findings:

Significant Deficiency:

Finding 1: Financial Statement Adjustments

Under new auditing standards in accordance with generally accepted accounting principles, Town personnel are responsible for preparation and review of financial information as part of the audit. During our Audit we recorded significant adjustments to the Town's opening fund balance.

Effect:

The Town's opening fund balance was materially misstated.

Cause:

The prior year audit entries were not recorded as part of the Town's opening fund balance reconciliation.

Recommendation:

The Town should consider reviewing its financial statements to ensure that all material adjustments and disclosures have been made for the audit.

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Other Matters:

Finding 2 – Procurement Procedures

During our audit we sampled cash disbursements to determine that the Town's procurement procedures were being followed. Four exceptions were noted in regard to not having proper quotes and bids on file based on the Town's adopted procurement policy.

Effect:

The Town may have not received the best price for the procured goods or services.

Cause:

The Town did not follow its procurement policy in maintaining written quotes on file.

Recommendation:

The Town carefully monitors its procurement procedures to ensure that all purchases that exceed the policy thresholds are followed and proper documentation is kept on file.

Finding 3: Fraud Risk Assessment

The Town has not performed a formal review of its internal controls and identified potential areas of fraud and prepares a response to mitigate any potential internal control weaknesses.

Effect:

The Town may have weaknesses in its internal controls leaving itself susceptible to fraud.

Cause:

The Town has not performed a full fraud risk assessment process over the Town's operations.

Recommendation:

The Town should implement a fraud risk assessment study from its Finance Committee in which it reviews the Town's internal controls at an entity-wide level to ensure proper controls are implemented and effective.

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Finding 4 – Payroll/Personnel Procedures

During our audit we sampled payroll transactions to determine that the Town's payroll was being recorded and processed properly. Exceptions were noted for the following issues: two employees did not have an I'9 on file; one employee did not have a W-4 on file; the Town does not have a written whistleblower policy on file.

Effect:

The Town is missing required personnel information in its files.

Cause:

The Town did not have the documentation on hand as noted above.

Recommendation:

The Town carefully monitors its payroll and personnel procedures to ensure that proper documentation is kept on file.

Status of Prior Year Findings:

Continuing Findings - Other Matters:

Finding 5– Encumbrances

During our audit we noted that the Town does not track its encumbrances throughout the year on its general ledger. In addition, the Town provided a year-end report from its accounting software that did not agree to the Annual Updated Document.

Effect:

The encumbrances per the open purchase order report did not agree to the Annual Update Document.

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Cause:

The Town did not generate an open purchase order report at year-end and agree that report to the general ledger.

Recommendation:

We recommend that the Town print an open purchase order report at year-end and agree this report to the general ledger.

Finding 6 - Over-expended Appropriations:

Certain appropriations were over-expended during the year.

Effect:

The Town has not provided for revenues sufficient to cover all expenditures since appropriations, i.e., planned expenditures, have been exceeded. The Town is also in violation of its legally adopted budget.

Cause:

The following appropriations were over-expended:

| <u>FUND/CATEGORY</u> | <u>APPROPRIATION</u> | <u>EXPENDITURE</u> | <u>VARIANCE (UNFAVORABLE)</u> |
|------------------------------------|-----------------------------|---------------------------|--|
| General Fund/ Employee Benefits | \$ 777,000 | \$ 909,779 | \$ (132,779) |
| General Fund/ Debt Service | \$ 1,293,930 | \$ 1,826,174 | \$ (532,244) |
| Sewer Fund/ Interfund Transfers | \$ 1,642,868 | \$ 2,905,229 | \$ (1,262,361) |

Recommendation:

The Town should periodically review comparisons of budgeted and actual expenditures and provide for budget modifications as needed.

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Finding 7 - Decentralized Revenues:

Various fees are assessed and collected by Town departments other than the Comptroller's office. Examples of these fees are building permits, contractor licenses, subdivision inspection and zoning fees, which are assessed and collected by the Building, Planning and Zoning departments. Fees are only recorded in the accounting system when and if received and without supporting documentation.

Effect:

Fee revenues may not be received timely and/or computed accurately since there is no independent verification and follow-up of fees assessed.

Cause:

The respective departments do not provide information to the accounting department as to when and how fees are assessed. The fees are collected by those departments and the outstanding receivable records are also maintained by those departments. The accounting department only becomes aware of the fee revenue when the cash is received.

Recommendation:

The Town should implement procedures so that supporting documentation, i.e., calculation of fee assessments, along with the bill, are submitted to the accounting department for verification and collection. All permits and licenses should be issued in pre-numbered order which corresponds to the billing control numbers facilitating reconciliations. The Building Department has changed its procedures and now uses the Town's accounting software for recording permits and recalculating amounts. The Zoning and Planning departments would then be relieved of the duty of collecting receipts and only be responsible for the initial assessment of fees.

Finding 8 - Debt Service Fund

The Town has established a Debt Service Fund, but is not using the fund for the purpose of debt service. Rather, it is being used to accumulate interest revenue.

Effect:

Funds set aside for debt service are not being used for that purpose.

Cause:

Debt Service expenditures are being recorded in the operating funds instead of the Debt Service Fund.

**TOWN OF POUGHKEEPSIE, NEW YORK
SCHEDULE OF FINDINGS, QUESTIONED COSTS
AND RECOMMENDATIONS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2007**

Recommendation:

The Town should modify its budgets for its operating funds and the Debt Service Fund to reflect debt service expenditures in the Debt Service Fund and the use of Debt Service reserve to fund those expenditures.

Finding 9- Deficit Fund Balance:

Several special districts have incurred or increased a deficit fund balance during 2007.

Effect:

Future rate payers will be funding past expenditures.

Cause:

Deficit fund balances have occurred as follows:

| | Fund Balance (Deficit) |
|------------------------------------|---------------------------------------|
| <u>Sewer Fund</u> | <u>\$ (401,094)</u> |
| <u>Street Lighting Fund</u> | <u>\$ (20,223)</u> |

Recommendation:

The Town should establish plans to provide for funding these deficits as well as improving budgeting procedures to prevent deficits from occurring and accumulating in the future.

OTHER MATTERS:

Status of Prior Year Findings:

Satisfied/No Longer Applicable: - Prior Year Findings #2, #4,

OFFICE OF THE COMPTROLLER
Town of Poughkeepsie

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Response to 12/31/2007 audit findings:

Finding 1:

Response: This issue was based on the transition from previous Comptroller (resignation in summer of 2007). All future opening year adjustments and disclosures will be made timely and accurately.

Finding 2:

Response: All current and future appropriations are required to *strictly* adhere to our town's procurement policy. Policy requires most purchases over \$500 must seek three quotations if purchased outside of New York State Contract.

Finding3:

Response: The town will review this recommendation with the town's Finance committee. Many procedures have been reviewed/ implemented with the hiring of new Comptroller (CPA hired in October 2007).

Finding 4:

Response: Recent measures have been implemented to ensure that all payroll and personnel procedures are accurate. A new procedure has been implemented for all new hires (all paperwork must be filled out accurately and in total prior to processing of 1st payroll).

Finding 5:

Response: A software problem continues to exist in this area. We will print a year-end Purchase Order report that reconciles to the year-end General Ledger. Periodic reviews with all departments are now done on a quarterly basis (ensuring that current PO's are still active, accurate, etc.).

Finding 6:

Response: All departments now receive budget to actual expenditure reports on at least a quarterly basis. All current and future appropriations will be made within budget. Town Comptroller will assist and ensure all budget modifications are made where applicable.

Finding 7:

Response: All decentralized revenue procedures are currently being reviewed. This review continues to be a priority for the 2008/2009 years. Communications have begun with new Director of Development (hired in fall of 2008 and now is in charge of both Zoning & Planning).

Finding 8:

Response: All debt service requirements are budgeted accurately in the respective operating funds. Town Comptroller will review the current state of the debt service fund in regard to purpose and necessity.

Finding 9:

Response: All deficit balances are reviewed during each budget cycle. In 2009 a 20% increase (from \$1.25 per 748 gallons of water consumption to \$1.50) in our sewer rents was implemented.